Press Release

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Basmati rice cos set for 100-150 bps margin boost

Stable export volume demand, higher advances against orders to further support credit-risk profiles

Operating margins of basmati rice companies are set to rise 100-150 basis points this fiscal because of lower paddy prices and stable volume demand abroad, making them one of the few segments of the Indian economy to buck the impact of both, the Covid-19 pandemic and the global slowdown, an analysis of 105 of them rated by CRISIL showed.

Paddy prices are expected to fall ~17% in current fiscal from an average of Rs 36 per kg seen last fiscal due to good monsoon and stable acreage.

On the other hand, export realisation is unlikely to decline in the same proportion as paddy prices because orders from key markets continue to be strong. Demand from the US, the UK and the Middle East (excluding Iran), which account for more than half of India's annual basmati export of around 4.4 million tonne, has increased because these countries are building food security buffers amid the Covid-19 pandemic.

Iran, which imports around 1.3 million tonne annually, is expected to register 20% lower volume from India as payment-related issues continue from last fiscal because of US sanctions. However, higher demand from other markets abroad should offset this. On average, export realisation is seen at Rs 63 per kg this fiscal compared with Rs 69 per kg in the last fiscal.

Realisation from the domestic market, accounting for 2.0 million tonne sales annually, is seen stable at Rs.52 per kg on strong retail demand. Rigid food habits and strong preference for basmati rice will prevent downtrade to non-basmati varieties in the retail market. But domestic volume may de-grow 20% because of extended lockdowns impacting demand from the hotels, restaurant and café (Horeca) segment.

Says Subodh Rai, Senior Director and Head of Analytics, CRISIL Ratings, "Spreads between blended realisation and paddy prices are expected to improve to Rs 31 per kg against Rs 29 per kg last fiscal. That would crank up operating profitability to 5.5-7.5% this fiscal, compared with 4.5-6.0% last fiscal."

Demand has remained strong during the lockdown, and rice companies have started to accept orders by seeking higher advances or letters of credit. They plan to use the advance monies to cut working capital debt.

Says Nitin Kansal, Director, CRISIL Ratings, "As much as 94% of the total debt is of short-term nature for working capital requirements. Higher advances leading to reduction in debt will improve the liquidity profile significantly, which is an important credit driver for the rice industry. The interest coverage[1] of basmati rice companies could improve to 2.4 times this fiscal from 2.1 times last fiscal, and leverage ratio[2] to 1.9 times from 2.2 times. That will be a credit positive."

Given this, the credit ratio (rating upgrades to downgrades) of CRISIL-rated basmati rice companies could remain higher than CRISIL rated portfolio. The key monitorables going ahead will be the extent of lockdown and timely sowing of paddy, which can impact the prices of both rice and paddy. That, in turn, will have a bearing on the credit profiles.

[1] *Earnings before interest, tax, depreciation and amortization (EBITDA) divided by interest and finance cost*
[2] *Total outside liabilities to total networth*

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